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November 15, 2002

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: NSTAR Gas Company, D.T.E. 02-12

Dear Secretary Cottrell:

NSTAR Gas Company ("NSTAR Gas" or the "Company") files this letter in response to the Initial Brief of the Attorney General filed with the Department of Telecommunications and Energy (the "Department") on November 8, 2002 (the "Attorney General Brief"). As indicated in the Company's Initial Brief, there is a small (88 BBtu) level of unserved demand in the 2002/2003 heating season under design weather conditions (Company Initial Brief at 9). This is equal to less than two-tenths of 1 percent of the Company's sendout (53,886 BBtus) during the 2002/2003 gas year (Exh. NGC-1S, at Tab 1, Table G-22D). The Attorney General argues that the Department should reject the Company's proposed supply plan in its entirety because he alleges the Company does not have adequate gas supplies under contract to meet this shortfall in the event design-year weather is experienced during the 2002/2003 heating season (Attorney General Brief at 1-2). According to the Attorney General, the Department should also reject the Company's lowered design-year standard (*i.e.*, from a one-in-fifty year probability of occurrence to a one-in-thirty-year probability of occurrence), which is based, in part, on the increased availability of short-term supply arrangements (*id.* at 3). The Attorney General's arguments are without merit.

Shortfalls of the *de minimis* levels identified by the Company (*i.e.*, less than two-tenths of 1 percent) are small enough that they easily can be addressed through the day-to-day management of the Company's gas portfolio. For example, during a period of warm weather, such as was experienced over the last weekend, the Company can (and did) deliver additional gas (already available to the Company under contract) to the upstream storage facilities for which it already has storage rights (*i.e.*, the Company filled its storage to a higher percentage of its maximum contract capacity). Warmer days in the winter provide opportunities to "top-off" storage or to refill storage later in the winter. Such activity represents reasonable and appropriate management of the Company's

portfolio that is performed throughout the winter heating season to assure that its supply is adequate, reliable and at the lowest cost to customers.

The Company will continue to monitor the forecasted levels of design-year shortfalls over the forecast period and will enter into additional contracts for supplemental supplies in the later years of the forecast, as needed (Exh. NGC-1S, at 1, 93). In understanding how the Company will satisfy these additional gas requirements, it is useful to review briefly the recent changes in the gas market. Over the past decade, numerous beneficial gas market developments have led to increased gas purchase alternatives for LDCs. For example, the significant growth in the participation of marketers, increased liquidity in market centers downstream of traditional production areas and the expansion of transportation options has resulted in greater gas purchasing alternatives (Exh. NGC-1S, at 20-24). A direct benefit to the Company's customers has been the ability to purchase gas in downstream market areas for delivery to the citygate or off-system storage facilities (*id.* at 22). Indeed, the Department has found that the gas supply market "is becoming more flexible and responsive to customers' and LDCs needs." Bay State Gas Company, D.P.U. 93-129, at 14 (1996).¹

Consistent with these market changes and the Department's findings concerning the presence of greater market flexibility, the Company has been able to rely on a wider array of market options to meet its customers' gas requirements. These resources allow the Company to avoid the costs associated with making long-term commitments for additional storage and transportation capacity (Exh. NGC-1S, at 94).

The Attorney General's contention that the Company must have contracts in place for all gas supplies that would be needed under design-year weather conditions is without merit because he fails to take into consideration the opportunities for daily portfolio management, short-term firm supplies and the increased flexibility available in today's gas market.² Similarly, the Attorney General's argument that the Department should reject the Company's 1:33 design-year standard because the Department requires all resources to be "in place" is without merit. The Attorney General citation to the Department's decision in Colonial Gas Company, D.T.E. 98-90, at 7, fn.6 (2000), in

¹ In addition to these structural market changes, the recent and planned increases of pipeline capacity and gas supplies in the New England region provide greater assurance that supplemental supplies will be available when needed (Exh. NGC-1S, at 94).

² The Attorney General also criticizes the forecast because the Company did not include loads associated with the Ponds of Plymouth residential development in its sendout forecast (Attorney General Brief at 3-4). However, the Company entered into an agreement to assume service to this load only *after* the forecast was filed with the Department (*see* D.T.E. 02-44, at 2 (2002) (agreement dated August 1, 2002)). Moreover, the small amount of load represented by the additions in Plymouth has an insignificant impact on any short-term deficiency. As pointed out by the Company's witness, Mr. Koster, the additional load is approximately 60 BBtu, increasing the amount of gas required from 28 BBtu to 88 BBtu (Tr. 1, at 39-41). As stated above, 88 BBtu constitutes less than two-tenths of 1 percent of the Company's annual sendout for 2002/2003 (Exh. NGC-1S, at Tab 1, Table G-22D).

which the Department found that sufficient firm resources must be in place, is inapposite. Notably, the Attorney General failed to identify the fact that the Department was addressing *design-day* requirements, for which there would be insufficient time and certainty to satisfy a shortfall in a single day. Moreover, the Department identified the short-term *non-firm* market, and not the short-term firm transactions relied upon by the Company over the design-winter period (*i.e.*, when additional firm opportunities *are* available) (Exh. NGC-1S, at 24). The Company's adoption of a 1:33 design-year standard is based on a comprehensive evaluation of alternative design standards, is responsive to the changes in the marketplace and is consistent with the standards of other LDCs in Massachusetts.

Based on the evidence in this case, it is clear that the market has generated significant new reliable gas purchase alternatives to the Company. These developments have led to greater flexibility with no reduction in reliability and potentially lower costs for all gas customers. Accordingly, the Attorney General's arguments should be rejected and the Company's Load Forecast and Resource Plan should be approved by the Department.³

Respectfully submitted,

NSTAR GAS COMPANY

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cc: Denise Desautels, Hearing Officer
Service List

³ Please note a minor correction is required in the Company's Initial Brief on page 9, line 2. The number 0.04 percent should be changed to 0.4 percent.